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Chief Administrative Officer

February 16, 2006

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
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Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Hospital Financing Waiver Hearing

A Joint Informational Hearing of the Senate Health Committee, the Senate Budget Subcommittee No. 3, the Assembly Health Committee and the Assembly Budget Subcommittee No. 1 was held on Tuesday, February 14, 2006 to discuss the implementation of the Medi-Cal Hospital Financing Waiver and its related coverage initiative. Representatives from the Administration, public and private safety net hospital representatives, and community clinic advocates provided testimony.

Stan Rosenstein, Deputy Director, California Department of Health Services, provided an overview of the Waiver, and the ongoing challenges the State faces with the Federal Centers for Medicare and Medicaid Services (CMS) regarding what costs will count as Certified Public Expenditures (CPEs), known as "Paragraph 14" of the Waiver. In addition to Paragraph 14, the State is working on three related State Plan Amendments (SPAs), which also are required to implement hospital funding streams under the Waiver.

Senator Denise Ducheny and Assembly Members Wilma Chan and Hector De La Torre criticized the department for the cash flow problems facing several counties with public hospitals, because the Waiver dollars cannot be allocated to public hospitals until Paragraph 14 and the related SPAs are approved by CMS, which could take several more months. According to Melissa Stafford Jones, President and CEO, California Association of Public Hospitals and Health Systems, public hospitals are already owed $650 million, and eight of them are in dire straits. Los Angeles County is not among the public hospitals experiencing a cash flow crisis at this time. Mr. Rosenstein said that the Administration is looking into providing those counties with loans; however it is unclear at this time how much the State would ultimately loan, and under what conditions. Roughly $200 million in loans have been requested by eight public hospitals. Private safety net hospitals are being paid because their source of funding is not subject to the items for which the State is seeking CMS approval.

Mr. Rosenstein indicated that the State is hopeful that CMS will soon finalize Paragraph 14, which would release about $400 million from the Safety Net Care Pool to public hospitals. Ms. Jones stated that the $400 million is only a portion of the funds owed under the Waiver, and that the largest source of funding is in the Disproportionate Share Hospital (DSH) program, worth about $1 billion, which cannot be allocated until the SPAs are approved by CMS. Ms. Jones also said that additional changes being contemplated by CMS and the President's proposed budget could negatively impact public hospitals.

Community clinic advocates were among those vying for dollars under the State's $180 million coverage initiative. The clinics propose to utilize preventive and primary care, and they are willing to work with existing safety net providers. Many clinics indicate that they already provide care to the uninsured, and that they have expertise in serving the low income community in medically underserved areas in a culturally-sensitive manner. A representative of the DSH Task Force, of which the County is a member, said that the Task Force also is working on a coverage proposal which recognizes the importance of public and private safety net hospitals. A challenge with the coverage initiative is securing the source of the non-federal share. It is unlikely that the State General Fund would be a source, which leaves local entities and the University of California hospitals to once again put up the match via CPEs to draw down the federal funds. Absent sufficient CPEs or State funding, it is unlikely the coverage initiative could be implemented.

Additional hearings on the Waiver and the coverage initiative are likely to take place over the next several months.

Los Angeles County Economic Development Corporation (LACEDC) Economic Outlook

On February 8, 2006, the LACEDC released its FY 2006-07 Economic Forecast. The LACEDC focused on the economic outlook and infrastructure needs in Southern California.

As with the other regions of the State, the economic activity in Southern California is expected to slow, but still doing well in 2006. Specifically:

- Overall growth is estimated to be 3.7 percent, which is higher than the estimate for the State (3.6 percent) and the United States (3.3 percent).

- Nonfarm employment is expected to grow by .9 percent in Los Angeles County, which is less than the estimate for the Riverside-San Bernardino area (2.1 percent) and the State (1.5 percent). The strongest growth industries in the County are projected to be leisure and hospitality (+9,500 jobs), construction (+6,500 jobs), and professional and business services (+5,800 jobs).

- Nonresidential vacancy rates are expected to decline, thus stimulating additional building. In Los Angeles County there are construction projects in the pipeline totaling $32 billion.

- Residential construction is expected to see a decline in sales and with some moderation in price increases. In view of the reduced level of price appreciation, lenders are tightening loan requirements. Overall this sector is expected to experience a soft landing. In Los Angeles County, the hot markets are Downtown LA, Hollywood, Long Beach, Century City and Santa Clarita.

- The outlook for tourism is positive. The Southern California region did not experience the labor problems with the hotel industry that occurred in Northern California. Progress toward building additional hotel capacity is expected and will help mitigate the current shortage of rooms.

- The value of two-way trade passing through the customs district is expected to increase by 12.2 percent to $330.9 billion in Los Angeles County.

Risks to the Forecast Include:

- Emerging shortage of developable land. This is particularly a concern in Los Angeles and Orange Counties.

- The fate of the C-17 military cargo plane is uncertain. If no further orders are placed, construction will end in 2008.

- The movie industry is coping with production moving to other areas, lower box office receipts and an evolution of the existing business model.

- Industrial space in the County is very low, and there is concern that sufficient new space is not being developed.

Current overcapacity in retail space will result in downsizing and will create a challenge for shopping malls to find tenants to replace the closing stores.

- A slowdown in the resale of residential housing.

- Higher than expected increases in interest rates related to the non-residential real estate sector.

Conference speakers addressed the urgent need for additional spending on infrastructure projects including:

- High levels of highway traffic congestion.

- Continued population growth. In the next twenty years, Los Angeles County is expected to absorb the equivalent of twice the population of the City of Chicago.

- Increased port traffic. By 2020, the number of containers handled is expected to triple.

- Increasing levels of pollution, partially due to traffic congestion.

<u>California State Association of Counties Federal Advocacy Priorities</u>

Next week, the Board of Directors of the California State Association of Counties (CSAC) will consider adoption of its Executive Committee recommendation that Medicaid, State Criminal Alien Assistance Program, Community Development Block Grants, flood control, and Indian tribal gaming be its five Federal advocacy priorities for 2006. CSAC contracts with Waterman & Associates to advocate on up to five Federal issues each year.

This year, Congress is considering major telecommunications reform legislation which could eliminate or greatly reduce the authority of counties and other local governments over the management of public rights-of-way with respect to telecommunication services. For example, bills which would eliminate the ability of counties and cities to franchise cable television services already have been introduced in both houses of Congress. This would affect our County, which is the local authority for 36 cable television franchises serving unincorporated areas and which receives $4 million in annual revenue through these franchise agreements.

The Federal Legislative Agenda Board letter, which is on your Board's February 21, 2006 Agenda, adds policies to address telecommunications reform issues affecting the County that could emerge. In contrast to telecommunications reform, it is far less likely that significant tribal gaming legislation will be enacted this year. Also, while telecommunications reform issues affect all California counties, the majority of the State's counties do not have any Indian gaming casinos. Therefore, we are recommending that telecommunications reform replace Indian tribal gaming as a CSAC advocacy priority for 2006.

We will continue to keep you advised.

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MAL:JF:MT:SK:MR:cc

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